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MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 10 Monday, May 7, 1990

Analysis of Business Trends Plus Selected Financial Indicators

The U.S. Trade Deficit Narrows

Defying widespread predictions made at the end of last year that U.S. trade progress would stall this year and could even reverse, February's $6.49 billion trade deficit was the smallest monthly shortfall posted since December 1983. While February's trade figure was an exceptionally good number, looking back over the last twelve months, the United States continued to make progress in reducing its trade imbalances with most countries.

Although not as good as the 24 percent improvement in the previous year, the cumulative trade deficit of $107.4 billion posted in the period from March 1989 through February 1990 was some 5½ percent smaller than the $113.6 billion shortfall recorded in the previous twelve months. What is more, the average monthly trade gap of $7.9 billion in the first two months of 1990 was $1 billion below the average $9.8 billion monthly deficit registered over the past twelve months, indicating further improvement this year.

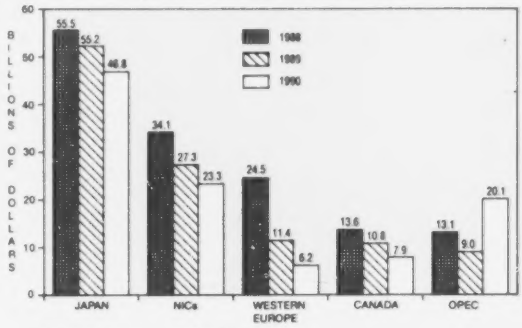
February's sharp improvement came on the import side of the ledger, reflecting a 7.6 percent drop in purchases of foreign goods, to $38.1 billion from $41.3 billion in January. Oil accounted for nearly two-fifths of this decline as both petroleum prices and import volumes were down substantially in February, following January's weather-related surge. During the first two months of this year, however, total imports were up by 6.7 percent from the January-February period in 1989. This was a slightly slower pace than both the 7.6 percent gain posted in the twelve months ending February compared to the same period a year earlier and the 7.1 percent increase recorded two years ago.

At the same time, while the rate of export growth over the past twelve months has decelerated from the rapid 25 percent clip registered in the previous year, foreign sales are still running close to twice the pace of import growth. In the period from March 1989 to February 1990, foreign sales climbed by almost 13 percent from the previous twelve months compared with a 7½ percent increase in imports during the same period. Exports in February benefited from the end of the strike at the Boeing Company. The value of aircraft exports jumped to $2.3 billion from $1.1 billion in January, bringing total exports to $31.6 billion, or just shy of the record $31.9 billion export figure reached in January.

The Improvement Is Worldwide

Looking globally, the United States has pared its trade deficit with all of its major trading partners during the latest twelve months except the oil exporting countries (OPEC), as the chart indicates. The biggest improvement has been with Western Europe, where our trade gap plunged to barely $6 billion in the period

U.S. MERCHANDISE TRADE DEFICIT
WITH SELECTED TRADING PARTNERS
(12-MONTHS ENDING FEBRUARY)



Source: Commerce Department

from March 1989 to February 1990. This compares with a deficit of $11 billion in the previous twelve months and almost $25 billion two years ago. In fact, the United States actually posted a $650 million trade *surplus* with Western Europe during the first two months of this year versus a $580 million deficit in the same 1989 period.

Thanks to the high-flying Canadian dollar, the United States also reduced its trade deficit with Canada, our largest trading partner, to less than $8 billion in the latest twelve months from $11 billion a year earlier and nearly $14 billion two years ago. So, too, the deficit with the newly industrialized countries (NICs) of Southeast Asia (Taiwan, South Korea, Hong Kong and Singapore) shrank to $23 billion from $27 billion in the previous twelve months and $34 billion two years ago.

Despite a 17 percent appreciation of the dollar versus the yen during the twelve months ended in February, we've even made some progress in reducing our trade deficit with Japan. The U.S. 12-month trade shortfall with Japan is now $46.8 billion versus $52.2 billion in the period

Manufacturers Hanover Economics Department 17/270

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from March 1988 to February 1989 and $[illegible]5.2 billion the previous year. As a result, while Japan is still the country with whom we have the largest deficit by far, that nation's share of our total trade gap declined to 43.6 percent in the latest twelve months from 45.6 percent in the same period a year ago.

In fact, the only group of countries with whom our bilateral trade deficit has widened over the past twelve months is OPEC. Reflecting a general rebound in oil prices during that period and the growing U.S. dependence on foreign oil, our trade deficit with OPEC more than doubled to $20 billion during the twelve months ending February 1990 from $9 billion in the previous year. What is more, oil now accounts for over 11 percent of U.S. imports and 41 percent of the trade deficit, up from less than nine percent and 30 percent, respectively, a year ago.

Prospects For The Rest Of The Year Are Good

Although the monthly trade data are extremely volatile, figures for the first two months of 1990 suggest that the U.S. trade gap for the entire year could fall below $100 billion for the first time since 1983. For this to happen, the monthly shortfall would have to average $8.3 billion for the rest of the year, versus the January-February average of $7.9 billion. Prospects

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/18/90)	214,080	- 1,990	+ 951
New York City (4/25/90)	39,430	- 7	- 3,524
Commercial Paper (4/25/90)	545,742	+ 3,916	+ 47,840

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/18/90)	326,240	+ 2,350	+ 12,103
New York City (4/25/90)	58,477	- 672	- 156

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/18/90)	1,011,959	+ 9,006	+ 58,967
New York City (4/25/90)	180,922	- 2,536	+ 4,626

Financial Markets

	Friday 5/4/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.00%	- .01	- .72
180-Day Bills†	8.22	- .13	- .60
Longest Bills†	8.38	- .13	- .57
Recent Issues:			
8¾s 4/30/92	8.70	- .23	
8½s 3/30/94	8.80	- .24	
8½s 2/28/00	8.82	- .21	
8½s 2/15/20	8.81	- .21	
Municipals:			
Bond Buyer—20 Bond Index* (5/3/90)	7.54%	- .03	+ .18
Blue List Total ($ Million)	$1,194	- $326	+$ 100
30-Day Visible Supply ($ Million)	$3,047	+ $928	+$1,812
Total	$4,241	+ $602	+$1,912
Corporates:			
Moody's Aa Composite (5/3/90)	9.84	+ .04	- .05
30-Day Visible Supply ($ Million)	$ 220	- $155	- $4,655
Stocks:			
Dow-Jones Averages:			
Industrials	2,710.36	+ 65.31	+328.40
Transportation	1,145.09	+ 16.89	+ 15.24
Utilities	208.38	+ 4.66	+ 15.52
65 Stocks	998.35	+ 21.03	+ 82.93
N.Y.S.E. Composite Index	185.38	+ 4.64	+ 13.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	139,988	+ 4,056	-23,528

*34% Taxable equivalent 11.42%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/4/90	Week Ago
Overnight	8.00%	8.13%
1 month	8.31	8.44
3 month	8.44	8.56
6 month	8.63	8.81
1 year	8.94	9.18

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/4/90)	Currency Per U.S. $	Week Ago
Belgium	34.48	34.67
Canada	1.1653	1.1634
France	5.6120	5.6395
Germany	1.6725	1.6900
Italy	1225.20	1231.50
Japan	158.60	159.00
Mexico	2773.00	2767.00
Netherlands	1.8805	1.8898
South Korea	697.43	698.52
Switzerland	1.4545	1.4455
Taiwan	26.19	26.18
U.K.*	1.6570	1.6355

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/4/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	-4.1%

for further trade improvement are greatest with Western Europe. Robust economic growth should continue in these countries, due to ongoing efforts to restructure their economies ahead of the single market by 1992. This will keep investment strong, increasing their demand for capital goods imports. At the same time, inflation pressures in Canada will keep the Canadian/U.S. interest rate differential substantially in Canada's favor. This should enable the Canadian dollar to remain strong against its U.S. counterpart, helping to boost our exports north of the border. Our trade deficit with the NICs should also continue to improve. This is because Taiwan, the country with whom we have the largest shortfall after Japan, is expected to shrink its surplus with the United States to less than $10 billion in 1990 from $13 billion in 1989 because of a recently-launched export diversification program.

There are two major uncertainties in an otherwise bright U.S. trade outlook this year. The first is whether the yen's current weakness and/or the U.S.'s strong appetite for Japanese automobiles, electronics and machinery will stall, if not reverse, our trade improvement with Japan. The other is the direction of oil prices at a time when the United States is becoming increasingly reliant on foreign oil. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/2/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	230.442	- .357	- 23.340
Loans to Depository Inst.	.989	- .330	- .929
Float	.476	+ .284	- .162
Total Reserve Bank Credit	272.521	- .014	- 5.262
Treasury Deposits with Federal Reserve Banks	4.543	+ .520	- 17.442
Currency in Circulation	259.936	- .362	+16.179
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223.360	+ .369	- 13.541
Member Bank Reserves:	**5/2/90**		
Total Reserves Held	60.734	- 1.162	+ .521
Excess (Deficiency)	1.138	+ .473	- .103
Net Free Reserves	.882	+ .423	+ .222

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (4/23/90)	805.6	+ 5.6	+ 3.4
M2 (4/23/90)	3,278.6	+ 6.1	+ 6.0
M3 (4/23/90)	4,073.6	+ 2.9	+ 2.7
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/4/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.76%	7.80%	7.80%
* Federal Agencies	8.30	8.50	8.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.47	9.47	9.47
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.40	8.60	8.65

‡ Finance Company Paper–Prime

5- 14 days	8.20%
15- 29 days	8.23
30- 59 days	8.18
60- 89 days	8.15
90-179 days	8.10
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances

Jun.	8.22%
Jul.	8.22
Aug.	8.22
Sep.	8.22
Oct.	8.22
Nov.	8.20

‡ Industrial Paper–Prime

30- 89 days	8.22%
90-120 days	8.30

†Federal Funds Effective Rate 8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90n	$ 5,441	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90n	$ 4,196	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90n	2.1	1.1	3.7
Change in Consumer Prices*	Mar '90	6.0 %	6.0%	6.0%
Change in MH Cost of Living Index*	Mar '90	7.2 %	12.2%	8.4%
Change in Producer Prices*	Mar '90	- 2.4 %	0.0%	4.8%
Civilian Employment (Thousands of Persons) †	Apr '90n	118,116	118,334	117,084
Unemployment as % of Civilian Labor Force †	Apr '90n	5.4%	5.2%	5.3%
Personal Income*	Mar '90n	$ 4,670	$ 4,634r	$ 4,361
Leading Indicators Composite Index (1967=100) †	Mar '90n	145.2	143.9r	144.7
Industrial Production Index (1977=100) †	Mar '90	108.8	108.1	107.7
Net Change in Consumer Installment Credit †	Feb '90	$ 3.42	$ 3.80	$ 5.38
U.S. Merchandise Trade Balance †	Feb '90	- $ 6.49	- $ 9.32	-$ 8.92
Plant and Equipment Expenditures*	2nd Q'90	$ 509.1(a)	$ 502.7(a)	$ 470.9
Private Housing Starts (Thousands of Units)*	Mar '90	1,321	1,457	1,405
New Construction Expenditures*	Mar '90n	$ 432.5	$ 438.6r	$ 416.8
Total Business Inventories †	Feb '90	$ 794.6	$ 797.5	$ 765.0
Total Business Sales †	Feb '90	$ 535.4	$ 528.6	$ 512.3

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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